

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7855

BILL NUMBER: HB 1529

DATE PREPARED: Jan 29, 2001

BILL AMENDED:

SUBJECT: Income Tax Deductions for Charitable Contributions.

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FUNDS AFFECTED: X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill allows an individual to deduct charitable contributions from the individual's Adjusted Gross Income (AGI). It provides that the maximum allowable deduction for an individual filing a single return is \$5,000 and that the maximum allowable deduction for a married couple filing a joint return is \$10,000. The bill also provides that an individual may not claim the deduction if the individual claims an itemized deduction for the charitable contribution on the individual's federal income tax return.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: This bill allows an Indiana taxpayer to deduct the aggregate amount of charitable contributions made during a given tax year from state taxable income. The maximum deduction allowed would be \$5,000 for an individual filing a single return and \$10,000 for a married couple filing a joint return. However, the Indiana deduction cannot be claimed if the taxpayer has claimed an itemized deduction for charitable contributions on his/her federal tax return.

Data and Estimation: The Internal Revenue Service (IRS) estimates that in 1998, 27.2% of Indiana taxpayers itemized their deductions. The IRS also estimates that in 1998, only 22.8% of all Indiana residents filing federal tax returns (or 629,800 taxpayers) deducted charitable contributions for a total of \$1,956 M. Based on these figures, the deduction established by this proposal would be available to any of the more than two million filers who do not itemize on their federal return. (Given that most taxpayers would receive a greater benefit by reducing their federal taxable income, it is unlikely that those who currently itemize would choose to claim the deduction at the state level.)

The exact number that would claim a deduction for charitable contributions and the amount that would be claimed are not known. For each single taxpayer claiming the maximum \$5,000, the impact would reduce state revenue by \$170 (\$5,000 multiplied by the Individual AGI rate of 3.4%). For joint filers, the maximum impact would be \$340 (the \$10,000 limit multiplied by 3.4%).

If one-half of Indiana taxpayers who do not itemize on the federal return claim a deduction from their state taxable income for charitable contributions equal to 20% of the maximum allowed, the impact could be as shown below:

Return Type	Number of Returns*	Average Deduction	Tax Impact (x 3.4%)	Revenue Loss
Single	1,148,071	\$1,000	\$34	\$39,034,414
Joint	866,089	\$2,000	\$64	\$55,429,696
TOTAL				\$94,464,110

* Based on the breakdown of all 1998 federal tax returns from Indiana, joint returns were projected to make up 43% of returns from taxpayers that did not itemize at the federal level.

The actual impact could be more or less than the projection of a \$94.5 M annual revenue loss shown above depending on the number of contributors and the average amount claimed. This deduction would be effective for tax years beginning January 1, 2002, and would impact revenue annually beginning in FY 2003. Individual AGI Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes will experience an indeterminable reduction in their revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: IRS, Statistics of Income Bulletin, Summer 2000 (Vol. 20, No. 1).